

VZCZCXRO7267
PP RUEHFK RUEHKSO RUEHNAG RUEHNH
DE RUEHKO #0743/01 0920747
ZNR UUUUU ZZH
P 020747Z APR 09
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC PRIORITY 1971
INFO RUEKJCS/SECDEF WASHDC PRIORITY
RHEHAAA/THE WHITE HOUSE WASHINGTON DC PRIORITY
RUEAWJA/USDOJ WASHDC PRIORITY
RULSDMK/USDOT WASHDC PRIORITY
RUCPDOG/USDOC WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RUEKJCS/JOINT STAFF WASHDC//J5//
RHHMUNA/HQ USPACOM HONOLULU HI
RHHMHBA/COMPACFLT PEARL HARBOR HI
RHMFIUU/HQ PACAF HICKAM AFB HI//CC/PA//
RHMFIUU/USFJ //J5/JO21//
RUYNAAAC/COMNAVFORJAPAN YOKOSUKA JA
RUAYJAA/CTF 72
RUEHNH/AMCONSUL NAHA 5654
RUEHFK/AMCONSUL FUKUOKA 3308
RUEHOK/AMCONSUL OSAKA KOBE 7104
RUEHNAG/AMCONSUL NAGOYA 1020
RUEHKSO/AMCONSUL SAPPORO 3850
RUEHBJ/AMEMBASSY BEIJING 8578
RUEHUL/AMEMBASSY SEOUL 4606
RUCNDT/USMISSION USUN NEW YORK 4452

UNCLAS SECTION 01 OF 11 TOKYO 000743

SIPDIS

DEPT FOR E, P, EB, EAP/J, EAP/P, EAP/PD, PA;
WHITE HOUSE/NSC/NEC; JUSTICE FOR STU CHEMTOB IN ANTI-TRUST DIVISION;
TREASURY/OASIA/IMI/JAPAN; DEPT PASS USTR/PUBLIC AFFAIRS OFFICE;
SECDEF FOR JCS-J-5/JAPAN,
DASD/ISA/EAPR/JAPAN; DEPT PASS ELECTRONICALLY TO USDA
FAS/ITP FOR SCHROETER; PACOM HONOLULU FOR PUBLIC DIPLOMACY ADVISOR;
CINCPAC FLT/PA/ COMNAVFORJAPAN/PA.

E.O. 12958: N/A

TAGS: [OIIP](#) [KMDR](#) [KPAO](#) [PGOV](#) [PINR](#) [ECON](#) [ELAB](#) [JA](#)

SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 04/02/09

INDEX:

- (1) Ruling parties to rush the handling of priority bills (Tokyo Shimbun)
- (2) Ruling parties might take lead in steering Diet business in latter half of session, aiming to pass fiscal 2009 extra budget, three key bills (Yomiuri)
- (3) Spring elections to choose heads of local governments (Asahi)
- (4) DPJ to go back on offensive over extra budget with eye on possible Lower House dissolution in May (Tokyo Shimbun)
- (5) DPJ lawmakers honestly looking forward to Okada becoming party head? (Asahi)
- (6) Confusion in DPJ (Part 2): DPJ unable to charter Lower House election strategy, with "face of the party" undecided (Nikkei)
- (7) Bank of Japan Tankan survey: End of tunnel not in sight (Asahi)
- (8) SDF's MD system now operational, with ground radar switched to operational mood (Sankei)

ARTICLES:

- (1) Ruling parties to rush the handling of priority bills

TOKYO SHIMBUN (Page 2) (Abridged slightly)
April 2, 2009

In the wake of Prime Minister Taro Aso's official announcement to present a fiscal 2009 supplementary budget bill to the Diet, the ruling parties will rush the handling of important bills this month.

The Liberal Democratic Party and the New Komeito confirmed in yesterday's meeting of their secretaries general and Diet affairs committee chairman a policy course to make utmost efforts for the handling of important bills for the time being.

The ruling parties regard three bills related to the establishment of the consumer agency as priority legislation. Besides them, priority legislation includes: a bill to raise the state's financial burden of the national pension scheme to one-half; a bill to amend the National Pension Law; anti-piracy legislation; a national civil service reform-related bill to establish the cabinet personnel affairs bureau; and the Japan-U.S. agreement to relocate U.S. Marine Corps from Okinawa to Guam.

The consumer agency bill, along with a counter proposal from the Democratic Party of Japan (DPJ), has been discussed almost daily since March 17. The ruling bloc intends to enter into revision talks with the opposition camp.

The ruling parties are aiming to smoothly discuss the pension bill and the Guam relocation agreement and to explain the anti-piracy legislation at a Lower House plenary session on April 9.

Nevertheless, if a supplementary budget bill is presented after the

TOKYO 00000743 002 OF 011

Golden Week holiday period in May, it will take precedence over other bills, forcing deliberations on them to stall again. As such, the ruling parties want to get priority bills enacted or passed by the Lower House before the end of this month.

(2) Ruling parties might take lead in steering Diet business in latter half of session, aiming to pass fiscal 2009 extra budget, three key bills

YOMIURI (Page 4) (Full)
April 2, 2009

In the latter half of the ongoing Diet session, the Democratic Party of Japan (DPJ) has softened its confrontational stance toward the ruling coalition, in part because of the effect of the arrest of party president Ozawa's secretary over illegal political donations from Nishimatsu Construction Co. Many observers now anticipate that deliberations on key bills might proceed under the lead of the ruling coalition.

In a meeting of ruling coalition members, including their secretaries general and policy research council chairmen, met at a Tokyo hotel yesterday, Liberal Democratic Party (LDP) Secretary General Hosoda expressed his confidence about an early passage of a fiscal 2009 supplementary budget bill. He said: "Since the supplementary budget bill is to finance economic stimulus measures, I do not think the opposition camp will raise objections. We would like to listen to views from as many people as possible and then work out an extra budget bill." Hosoda also indicated that the government would push ahead with preparations, aiming to submit the bill to the Diet prior to the Golden Week holidays in May.

Focusing on the internal discord in the DPJ over whether the future course of President Ozawa and recovering public support ratings for the Aso cabinet, the ruling camp think it is now a good chance to take the initiative in the latter half of the current Diet session. Under its scenario, (1) an anti-piracy bill, a bill related to establishing a consumer agency, and a bill amending the National Pension Law to increase the government's subsidy rate for basis pension benefits to 50 PERCENT would clear the House of Representatives in April; (2) deliberations would start in late April on the fiscal 2009 supplementary budget bill, tax-related bills and other key bills, with the aim of having them pass the Lower House and enacted in mid-May.

Some members worry that the start of full-scale deliberations on the bill amending the National Pension Law might change the atmosphere in Diet deliberations on pension issues. Starting pension discussion has been an "unlucky exposure" for the LDP. The problem of pension negligence and pension record-keeping fiasco were focused on as the main campaign issue for the Upper House elections in 2004 and 2007, respectively. In these elections, the LDP experienced a uphill battle. These pension issues, which have yet to be resolved, good ammunition for the opposition bloc to attack the ruling parties.

Furthermore, the ongoing investigation into illegal political donations by Nishimatsu to DPJ President Ozawa's office might spread to a political group linked to Economy, Trade and Industry Minister Nikai of the LDP. Many members are concerned that the Nikai scandal might become a source of trouble in the LDP.

In a press conference on March 31, Prime Minister Aso referred to

TOKYO 00000743 003 OF 011

the possibility of dissolving the Lower House, depending on the DPJ's responses to the supplementary budget and other important bills. Meanwhile, the ruling coalition has indicated its willingness to flexibly respond to the opposition side's call for holding talks to revise the consumer agency bill. As it stands, the ruling side has begun to take a carrot-and-stick policy stance in the latter half of the current Diet session.

(3) Spring elections to choose heads of local governments

ASAHI (Page 4) (Full)
March 31, 2009

Ozawa-style election strategy no longer useful

The main opposition Democratic Party of Japan (DPJ), which has been shocked and shaken by the donation scandal involving Nishimatsu Construction Co., is now being forced to come up with a fresh election strategy. DPJ President Ichiro Ozawa has his election strategy of carrying out campaigns by stumping nationwide and sending his secretaries across the nation. However, the Ozawa-style election strategy has now been stalled. In the wake of the defeat of the candidate recommended by the DPJ in the gubernatorial election on March 29 of Chiba Prefecture, dark clouds seem to be casting shadows over the results of local elections to take place in this spring, including the Akita gubernatorial election in April.

When Ozawa visited on March 28 the election office of the candidate backed by the DPJ for the Chiba gubernatorial race, he was told by a female volunteer staff member that she received a number of claims by phone. Ozawa had no choice but to say: "I'm sorry for that."

Ozawa was refraining from election support after his secretary was arrested on March 3. But after wavering, he decided to go to Chiba to support the candidate. However, he was welcomed at the election office of the DPJ-backed candidate for the Yamagata gubernatorial election in January, when he visited there two days before the election. The DPJ candidate won the election after running a close race. In his meeting on the night of March 30 with DPJ Secretary General Yukio Hatoyama, Deputy President Naoto Kan and Azuma Koshiishi, chairman of the DPJ caucus in the House of Councillors, Ozawa was suggested stumping nationwide but he was reluctant to do so, saying: "I want to refrain from going a stumping, since the prosecutors have yet to completed their investigations."

The existence of Ozawa seems to negatively affect small-scale unified local elections to be held in April, prelude to the next general election for the House of Representatives. The DPJ will face uphill battles in such elections as the Akita gubernatorial race, since its election cooperation with the Social Democratic Party and Rengo (Japanese Trade Union Confederation) has now collapsed.

The largest opposition party has fallen behind in its strategy of going into the general election. Before the donation scandal came to light, Ozawa had made his nationwide political tour, during which he held informal meetings with senior Rengo officials. He had even

visited the offices of prospective candidates without advance notice. He had sent his secretaries to electoral districts to teach new-face candidates how to campaign. This is Ozawa's campaign method that brought a landslide victory to the DPJ in the 2007 Upper House election. After the revelation of the donation scandal, Ozawa went to only Chiba and Kanagawa prefectures. Some secretaries have

TOKYO 00000743 004 OF 011

returned to Ozawa's office.

On the night of March 30, Ozawa and other DPJ executives reconfirmed that they would continue cooperating to prevent Ozawa's remaining in his party post from having a negative impact on the general election. According to participants, Ozawa said:

"(Holding the snap election in) May would better. Even if the Lower House is dissolved after the expiration of the term of the lower chamber, we should make the party arrangement under which we can go into the election."

However, party executives have openly expressed concern, with one member saying: "Our election ability has definitely weakened. (Ozawa's remaining in his post) has already produced negative effects."

Heavyweights in distress over trend of voters abandoning LDP

In the March 29 mayoral election in Komatsu City, Ishikawa Prefecture, the candidate who was the incumbent Komatsu mayor and who serves as chairman of the association of support groups for former Prime Minister Yoshiro Mori, 71, was defeated. Mayoral elections will be held in the home turfs of LDP Tax Research Commission Chairman Yuji Tsushima, 79, and former LDP Upper House Caucus Chairman Mikio Aoki, 74. Amid the LDP suffering the setback over the illicit donation scandal, there is a clear trend of voters abandoning the LDP in the home districts of those big-shot lawmakers.

A Komatsu City Assembly member, secretary general of the election office of the incumbent candidate, 69, who sought a fourth-term in the Komatsu mayoral race, said: "The reason for the defeat was public criticism of multiple election rather than the aftermath of national politics." Some LDP members in the Komatsu City Assembly supported the new-face candidate, 57, a former construction machine company official, who won the race.

The new-face candidate (who becomes new Komatsu mayor) is believed to have close ties to Mieko Tanaka, 33, who is expected to run as a DPJ new-face candidate backed by labor unions in the Ishikawa No. 2 district for the next Lower House election, clashing with Mori, who has already been elected 13 times in this district. In order to avoid the mayoral election from becoming a proxy war of the general election, Mori sent telegrams to both candidates on the day when the official campaign for the election kicked off. He also had his secretaries attend the kick-off ceremonies of the two candidates.

Mori's oldest son, a member of the Ishikawa Prefectural Assembly, attended the kick-off ceremony of the candidate, who was the mayor.

In Tsushima's home district, where the Aomori City mayoral election will be held (on April 19), the incumbent mayor is suffering from being of an advanced age and criticism for his seeking multiple election. A 61-year-old Aomori Prefectural Assembly member and 50-year-old Aomori City Assembly member will challenge the 76-year-old incumbent mayor, who will seek his sixth-term. Tsushima, who is now serving in his 11th-term in the Diet, has close ties to the incumbent mayor. So, a senior LDP member said: "Criticism of the incumbent mayor links to criticism of Tsushima."

Three persons -- the incumbent mayor, a former deputy mayor and

TOKYO 00000743 005 OF 011

former senior local newspaper company official -- have announced their candidacies for the mayoral election (April 12) in Izumo City,

Shimane Prefecture, which is Aoki's home turf. Since the LDP Izumo chapter, which had recommended the incumbent mayor, is now supporting the former deputy mayor, the conservatives will likely enter the election split into two groups.

Nagato City in Yamaguchi Prefecture, which is the home district of former Prime Minister Shinzo Abe, will hold a mayoral election (on April 12). Yanagawa City in Fukuoka Prefecture, the home turf of LDP Election Strategy Council Chairman Makoto Koga will conduct a mayoral election (on April 12). Matsue City in Shimane Prefecture, LDP Secretary General Hiroyuki Hosoda's home constituency, will also hold a mayoral election (on April 19). The outcomes of those local elections will likely affect the timing of the Lower House dissolution.

Major local elections in April

April 5 Kodaira City mayoral election (Tokyo)
April 12 Akita gubernatorial election
Izumo City mayoral election (Shimane Prefecture)
Nagato City mayoral election (Yamaguchi Prefecture)
April 19 Aomori City mayoral election
Matsue City mayoral election
Sanyo Onoda City mayoral election (Yamaguchi Prefecture)
April 26 Nagoya City mayoral election
Shimanto City mayoral election

(4) DPJ to go back on offensive over extra budget with eye on possible Lower House dissolution in May

TOKYO SHIMBUN (Page 2) (Abridged slightly)
April 2, 2009

Takayoshi Goto

The Democratic Party of Japan (DPJ) decided yesterday to set up teams to examine such issues as the amakudari practice in which retired bureaucrats land postretirement jobs at entities connected to the ministries they worked, the question of unidentified pension accounts, and measures against unemployment, to pursue them at the Diet. The party will also formulate its counter proposals to the government plans. The main opposition party has been in the doldrums due to a Nishimatsu Construction Co. donation scandal involving a state-paid secretary to President Ichiro Ozawa. The party is trying to regain its fighting spirit with an eye on a rumor in the ruling camp that the House of Representatives might be dissolved in May.

Prime Minister Taro Aso indicated (on March 31) that if opposition parties put up stiff resistance in deliberations on a fiscal 2009 supplementary budget bill, he might dissolve the Lower House. With this in mind, DPJ Diet Affairs Committee Chairman Kenji Yamaoka in a party meeting yesterday provocatively said: "The prime minister talked big. He should make good on it." Yamaoka thus implied the possibility of pursuing the government and the ruling parties through Diet deliberations without responding to their call for the early enactment of the fiscal 2009 extra budget bill.

The DPJ thinks the fiscal 2008 supplementary budget and the fiscal 2009 budget are insufficient to jumpstart the economy. On April 2, the party will establish teams to probe (1) amakudari, (2) the

TOKYO 00000743 006 OF 011

question of unidentified pension premium payment records, (3) measures against unemployment, (4) the credit crunch by banks, and (5) the cash handout program.

The DPJ's shadow cabinet decided yesterday to submit a small and medium-sized enterprises revitalization support organization bill in reaction to the government's regional economies revitalization organization bill. The party has also presented disabled people abuse prevention legislation in rivalry with the government and the ruling bloc. The largest opposition party is struggling to restore its fighting spirit that has weakened because of the scandal involving Ozawa's secretary.

Prime Minister Aso is dangling the possibility of dissolving the

Lower House to apply pressure on the DPJ. Remaining on the defensive might prompt the general public to raise questions about the DPJ's competence ahead of the next Lower House election. Secretary General Yukio Hatoyama stressed that the time has come for the DPJ to demonstrate its ability to formulate policies for the people.

Further, the DPJ apparently wants to play up its confrontational stance against the ruling camp in a bid to divert its focus from the lingering calls for Ozawa's resignation to the Diet and policies.

At the same time, saddled with the question of Ozawa's resignation issue, a matter of great concern to the public, the DPJ might end up being attacked instead by the ruling parties over the issue of politics and money. There is concern in the DPJ over a possible mudslinging contest, with one saying, "The ruling parties might pursue the question of President Ozawa and the provision of funds for pyramid scheme operators."

(5) DPJ lawmakers honestly looking forward to Okada becoming party head?

ASAHI (Page 4) (Full)
April 2, 2009

While Democratic Party of Japan (DPJ) President Ichiro Ozawa has been suffering from the criticism of his decision to continue serving as party leader, Vice President Katsuya Okada, 55, is regarded as the most likely candidate to succeed Ozawa. Okada, who acts as if he has a zipper on his mouth, has been reluctant to continue stumping nationwide, as well as carrying out discussion on political reform. Even so, there still remains the rumor that Okada might become party leader again after Ozawa resigns. The newspaper has probed into the rumor.

Okada had distributed an email newsletter, titled "The female owner of a boarding house (geshuku no obasan)," on March 26, the day before the DPJ held a meeting of its House of Representatives members regarding the indictment on March 24 of Ozawa's secretary. Okada's newsletter drew attention, but it was about the story that he had visited a nursing home in which the female owner of the boarding house in which Okada lived when he was a college student. His story had no connection with the political situation.

Okada must have known about the fact that there is expectation in the DPJ that he would become party leader. On March 4, the next day following the arrest of Ozawa's secretary, when asked by the press corps about the mood favoring his becoming DPJ leader, Okada brushed aside the question, saying: "I can't believe what a stupid question

TOKYO 00000743 007 OF 011

you are asking." He has played up the unity of the party in his nationwide stumping tour.

We wonder why DPJ lawmakers have expectations of Okada. A person close to Okada pointed to such reasons as his image of being clean with money, honest, and adamant. A senior Japan Business Federation member highly evaluated him, noting: "He has studied well, and he has a good sense of balance." A mid-level DPJ member in the Upper House said:

"He is a unique person who does not like to factions. He is a quite different from other politicians. He is a person suitable to serve as prime minister of a DPJ government."

Some among Ozawa aides predict that Ozawa considers Okada his successor. Okada described in a book he considered Ozawa, with whom he left the DPJ in 1993, as his father in the political world. The fact that Ozawa entrusted Okada with the handling of discussion on the issue of whether to completely ban donations from corporations and organizations has given rise to speculation that it is a strategic move to name him as his successor.

However, some members in the DPJ have begun raising a question, with one member saying: "Is it all right for Okada to so easily replace Ozawa?" The coalition of three opposition parties -- the DPJ, the Social Democratic Party, and the People's New Party -- is an

obstacle. Should the DPJ gain a sole majority in the Lower House, it will not be able to hold a majority in the Upper House without the SDP and PNP. In the case that Okada replaces Ozawa, who has placed importance on the alliance with the two opposition parties, there is concern that the cooperative relations with the two parties would collapse because Okada lacks flexibility.

Many DPJ members predict that Ozawa would not take any risks. Although the number of the requests of his approval of using his pictures for making campaign posters has boosted after the arrest of Ozawa's secretary, Okada has turned down those requests. A person close to Okada said: "He had not accepted such a request even before Ozawa's secretary was arrested." A junior lawmaker, however, remarked: "He is too attentive to be viewed that he vies with Ozawa." DPJ lawmakers, who have distanced themselves from Ozawa, are concerned about Okada in this way: If he strengthens criticism of Ozawa, he would have to take (joint responsibility) as a member of the party executives who agreed to Ozawa's decision to remaining in his party post.

(6) Confusion in DPJ (Part 2): DPJ unable to charter Lower House election strategy, with "face of the party" undecided

NIKKEI (Page 2) (Abridged)
April 2, 2009

On March 26, Hirohisa Fujii, a supreme advisor to the Democratic Party of Japan (DPJ), called on Kozo Watanabe, another supreme advisor, at his room in the Diet Member's No. 2 Office Building of the House of Representatives. The two lawmakers know well about party president Ichiro Ozawa, who had announced his intent to stay on just two days before.

Fujii said: "His secretary probably will be found not guilty, but I think he should resign as party president for now." Watanabe replied: "I share your view 100 PERCENT," but he added: "He is

TOKYO 00000743 008 OF 011

almost like a person who refuses to do what he is told but do what he is told not to do."

Judging that Ozawa will inevitably come under heavy fire from the public over illegal political donations, Watanabe has begun to take the view since the arrest of his secretary that a change of president will be unavoidable, disclosing to his aides an idea of appointing Katsuya Okada as party president and Ozawa as election strategy headquarters chief. He fears that if calls for Ozawa's early resignation grow louder, Ozawa could make an angry response and that disarray would be caused in the party. Watanabe told Vice President Seiji Maehara, former Policy Research Council Chairman Yoshito Sengoku and other party members close to mid-ranking and junior members who expect Ozawa to step down to calmly watch the development of the situation for the time being.

The DPJ is also slow to move to put up a successor to Ozawa. On the night of March 18, before Ozawa's secretary was arrested, Okada showed up in a meeting held at a Chinese restaurant in Yanoh Park Tower in Nagata-cho by DPJ lawmakers who have been elected to the Lower House six times, including Vice President Yoshiaki Takagi. Many mid-ranking and junior members hope that Okada will assume the presidency.

Although what to do if Ozawa resigns as party head was also discussed, but Ozawa made cautious remarks, such as: "It is necessary to solidify the party unity." Since Ozawa announced that he would stay on as party president, Okada has expressed his support of Ozawa and has not expressed what view he has taken. A lawmaker in favor of Okada becoming party president grumbled: "Even if we asked him to stand as a candidate for the party presidency, he might decline our request."

Ozawa has begun to indicate that he would put off his decision on whether to resign up until just before the Lower House is dissolved. Last night, upon making an apology during a meeting with the party's secretary general and deputy secretaries general, Ozawa emphasized: "I will never be beaten by prosecutors."

It will have a great influence on the election if the party remains unable to select the "face of the DPJ." If Ozawa resigned, the party would review its current pork-barrel policy measures when the party forms its policy manifest for the next general election. A senior Policy Research Council member claimed: "We will have trouble if he decides to resign just before the election."

On the night of March 30, Deputy President Naoto Kan, Secretary General Yukio Hatoyama and party caucus in the House of Councillors Chairman Azuma Koshiishi met with Ozawa at a sushi restaurant in Tokyo. When Kan asked him to visit local electoral districts as much as you can," Ozawa expressed his eagerness, even while saying: "Prosecutors are moving actively. I am feeling somewhat restless."

Ozawa has stressed the effectiveness of a grassroots door-to-door election campaign. But such voices are heard among mid-ranking and junior members that if he comes to our electoral districts, there might be an adverse effect.

If Ozawa continues to watch the situation, dissatisfaction in the party might build up. Supreme advisor Tsutomu Hata, who seceded from the LDP with Ozawa, has begun to make this remark to his aides recently: "I will tell him what I should say when it becomes

TOKYO 00000743 009 OF 011

necessary for the sake of Mr. Ozawa and the party."

(7) Bank of Japan Tankan survey: End of tunnel not in sight

ASAHI (Page 2) (Full)
April 2, 2009

According to the Bank of Japan's March Tankan survey, business confidence of leading companies marked the worst-ever record since the survey was started in 1974. With foreign demand sharply dropping, companies are making a frantic effort to reduce excessive stocks. Economic recovery cannot be hoped for. The negative synergetic inter-action between banks and companies is imminent.

Mountains of hidden stockpiles surfacing: Raw materials purchased when prices were high affecting

The initial feature of the ongoing economic recession was a quick decline in demand. Corporate managers are now fearful about the economic slump becoming protracted.

Showa Denko manufactures aluminum and plastics for automobiles. President Takahashi asked the company's business partners when he made New Year's calls, "When can we expect orders from your company?"

Many of the company's business partners, such as automakers and electronic manufacturers, replied, "It will take six more months." The operation rate of production lines for tinfoil used for digital consumer electronics briefly dropped to 10 PERCENT .

Companies usually hold back on placing orders to reduce stockpiles. It took two to three months for companies to finish the hard part of inventory adjustment in the past recessions. In the ongoing recession, companies started major production cuts during the October-December quarter last year, and yet the inventory adjustment is not yet over.

President Takahashi asked an executive of a certain electronic parts manufacturer about the reason for that. This executive gave an unexpected reply: "We looked into reasons and found that there were stockpiles more than we had realized in the distribution and production fields."

A major feature of Japanese manufacturing companies is constraining raw materials in stock to the minimum, as seen in Toyota's production method. However, companies had feared that they might become unable to manufacture goods due to a shortage of raw materials, because the global economy had been booming for the past several years.

The rise in the prices of crude oil and steel materials up until the first half of the previous year has compounded companies' lax stock management. Takahashi said, "Many companies appeared to have thought that if they bought raw materials before their prices rose further, they could lower costs."

The index of industrial inventories stood at 96.1 in January 2004 before the sharp rise in raw materials kicked into high gear. However, such an index rose to 107.6 in September 2008. Hidden stockpiles were exposed at a burst due to the economic crisis with the index marking 103.7 in February 2009. It is impossible for

TOKYO 00000743 010 OF 011

companies to reduce stockpiles in proportion to sales drops.

Production has sharply slowed and capital investment has come to a standstill with demand remaining sluggish and stockpiles remaining undisposed. All Tankan indexes marked a historic decline. The big three goods manufactures -- manufacturers of automobiles, engineering machines and electric machines -- have all collapsed.

Some companies expect a pause in production cuts in the future. Toyota Motors plans to increase its domestic output per day in May from about 8,000 units up until April to more than 10,000 units. In the Tankan diffusion index, leading companies projected that business conditions will slightly pick up in three months' time. Mitsui Bussan President Iijima took a view that there have appeared some bright indications, such as housing start-ups have taken an upward turn in the U.S.

However, even if the downtrend touches bottom, there is a deep-rooted sense of alarm among business managers that the L-shaped economic downturn might continue. Nippon Steel Corporation President Muneoka noted, "Chances are that the low production level will continue over the next 1-2 years." An executive of Hitachi said, "I had estimated that demand would recover in fiscal 2009. However, the case would be the other way round."

The fix of the export-oriented industry is beginning to affect the domestic demand-oriented industry and the non-manufacturing industry through the declining employment and consumption. Asahi Breweries President Ogita said, "The downturn of consumer mind is pronounced. Customers are becoming selective."

(8) SDF's MD system now operational, with ground radar switched to operational mood

SANKEI (Page 1) (Slightly abridged)
April 1, 2009

The Defense Ministry switched the Air Self-Defense Force's (ASDF) latest-model ground radar system, FPS-5, from test to operational mood early this week, according to informed sources yesterday. This radar system, with significantly upgraded detecting and tracing capabilities, is capable of monitoring the entire sky over North Korea. The SDF has already mobilized Aegis-equipped destroyers and Patriot Advanced Capability-3 (PAC-3) missiles to prepare against North Korea's planned launch of a long-range ballistic missile which the North claims a satellite. With the switch of FPS-5 to operational mood, Japan has now completed preparations to intercept an expected incoming missile from North Korea, with its missile defense (MD) system.

A prototype of the FPS-5 was competed in fiscal 2003 and has been used since then for operational research at facilities of the Defense Ministry in Asahi City, Chiba Prefecture. The SDF had planned to disassemble the prototype in fiscal 2006 but changed its mind, keeping in mind North Korean missile threat. Japan has decided to deploy FPS-5 missiles in four locations across the nation from fiscal 2008 through fiscal 2011. The first radar was installed on Shimo-Koshiki Island in Kagoshima Prefecture on March 31.

The FPS-5 is a key component of the radar network to intercept ballistic missiles, together with Aegis-equipped destroyers carrying the high-performance SPY-1 Radar. Since the start of this week, the

FPS-5 system has been switched to the mood of detecting a ballistic missile. The system is now ready to intercept an incoming object from North Korea in the state of its irradiation distance lengthened.

The FPS-5 is capable of detecting and trailing even a small-sized ballistic missile, which fall down at a high speed with small radar-cross section. Its detectable range is nearly two times longer than that of the FPS-3. The FPS-5 system succeeded in trailing various types of flying objects in operations research. A senior SDF official proudly said: "The system will be able to detect any missile flying over Japan, without fail."

If North Korea launches a missile, the FPS-5 radar system on Shimo-Koshiki Island will independently trail it, because it is still uncertain whether the system can be connected to an information transmission system.

The X-band Radar system installed by the U.S. military in Aomori Prefecture will also be used. This system's detectable range is longer than that of the FPS-5, so it is capable of monitoring long-distance places. It can identify even the shape of missiles, but its radio waves weaken due to rain and clouds. Given this, Japan will use the X-band Radar and the FPS-5, which is less affected by the weather, with both playing complementary roles.

ZUMWALT